

# Information

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## *An Overview*

Restoring health to Canada's finances is not an end in itself. It is the necessary means to provide Canadians with the opportunity and the ability to succeed in an ever-evolving economy, while ensuring their security and well-being. This has always been the government's goal – in short, to build a strong economy and a strong society that provide Canadians with opportunity and security.

## *A Plan That is Working*

Underlying the government's economic and fiscal plan was the conviction that it had to break the vicious circle of higher deficits – that is, higher deficits leading to higher interest rates, which led to slower economic growth, rising unemployment, lower government revenues and rising government expenditures which, in turn, led to even higher deficits.

Over the past four years, the government has succeeded in dramatically reducing the deficit. This has helped to lower interest rates, strengthen economic growth and job creation, and increase government revenues, leading to even lower deficits.

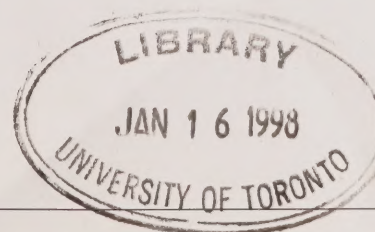
The government's plan is working: it has broken the vicious circle and helped create a virtuous circle, which will ultimately benefit all Canadians.

## *Restoring Health to Canada's Finances*

In 1993-94, the deficit represented about 6 per cent of the economy or gross domestic product (GDP) – about \$42 billion. In 1996-97, the deficit came in at \$8.9 billion – almost \$20 billion lower than the previous year, and the largest year-over-year improvement in Canadian history. At 1.1 per cent of GDP, it is the smallest federal government deficit in over two decades.

The government now expects to eliminate the deficit no later than next year, 1998-99. This will be the first year the federal government's books have been balanced since 1969-70.

In 1996-97, the government did not have to borrow new money on financial markets to pay for ongoing programs or for interest on the public debt (the accumulated total of all past annual deficits and surpluses since Confederation). This is the first time the government has been in this position in 27 years.







## *The Payoff: Stronger Growth and Job Creation*

The economy is now growing very strongly, and at no time in the past 25 years has the economic environment in Canada been more positive. The government's action plan to restore sound finances, combined with low and stable inflation, has contributed to a significant decline in interest rates. This has fuelled the recent strong growth that is creating jobs, and reflects a new optimism on the part of consumers and businesses about the future. Altogether, these positive developments provide a sound basis for continued strong growth.

### *Economic highlights:*

- In the first nine months of the year, 279,000 net new jobs were created, the vast majority of these full-time and all in the private sector.
- One-year mortgage rates have fallen over 4 percentage points since January 1995, providing substantial interest rate relief for homeowners. Five-year mortgage rates are currently at their lowest level in a decade.
- Private sector forecasters expect growth of about 3.7 per cent in both 1997 and 1998 – the strongest back-to-back growth in almost 10 years as well as the strongest in the Group of Seven (G-7) countries.



## *The Remaining Fiscal Challenge*

Despite progress toward eliminating the deficit, the federal government's total public debt is very high by any standards. The best way to measure our debt burden is in relation to the size of the economy or gross domestic product because this indicates our capacity to manage debt. In 1996-97, the size of the federal debt in relation to GDP – the debt-to-GDP ratio – fell to 73.1 per cent from a year earlier, the first significant reversal after 25 years of virtually uninterrupted increases.

Reducing the debt-to-GDP ratio is key to ensuring sustained long-term growth and job creation. That is why the government is committed to a permanent decline in the debt-to-GDP ratio.

The government will continue to ensure sound fiscal management as a basis for sustained economic growth and job creation by using the prudent and responsible fiscal guidelines that have proven so successful: presenting two-year fiscal plans in its budgets; basing these plans on prudent economic assumptions; and building a Contingency Reserve into its financial plans to handle unforeseen circumstances and errors in the economic forecast.





## *The Fiscal Dividend*

The fiscal dividend is the projected surplus of total revenues over total spending that would arise in the absence of any new tax and spending actions since the 1997 budget. The fiscal dividend, when it arrives, will be small and will grow slowly in the first few years.

The 50:50 allocation of the fiscal dividend – among expenditures to address economic and social needs and among tax cuts and debt reduction – will be used as a guiding principle for planning purposes. The annual allocation will vary from year to year. The final allocation can only be assessed after totalling all of the spending, tax and debt reduction actions undertaken in all of the budgets during the mandate and the year-end audited outcomes.



## *Building a Strong Economy and a Strong Society*

While the economic indicators are much healthier today than at any point in the past 25 years, other fundamental changes are taking place in Canada's economy that require ongoing adjustment. The development and use of knowledge are fast becoming the main engines of long-term growth in all industries. This change is raising educational and skill requirements throughout the economy and accelerating the integration of the world's economies.

Canadians believe they can prosper in the economy of the 21st century. But they are also concerned about how these changes will affect them, their families and those who are unable to take advantage of the opportunities economic change will bring. They are concerned, too, about the future of health, education and other valued programs that serve and unite Canadians.

That is why Canadians want a government that responds to economic change by providing leadership. The federal government is taking an active role in creating opportunities and building security for Canadians by:

- working with Canadians to build a strong, modern economy that will generate more and better jobs and raise living standards; and
- securing Canada's health, education and other valued programs so that the benefits of economic growth can be shared by all.

The federal government is committed to build a strong economy and a strong society for Canadians in the global, knowledge-based economy. These goals are mutually reinforcing. A strong economy provides Canadians with the opportunity for more and better jobs and generates the revenues needed to maintain and enhance important programs that contribute to a strong society. A strong society provides Canadians with the sense of security that allows them to adjust with confidence to a fast-changing economy. The challenge is for the government to ensure that the quantity of growth Canadians seek contributes to the quality of life they deserve.

